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REVIEW OF THE HOUSTON ECONOMIC SUMMIT

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

JULY 25, 1990

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REVIEW OF THE HOUSTON ECONOMIC SUMMIT

WEDNESDAY, JULY 25, 1990

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 10:20 a.m., in room 2261, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the committee) presiding.

Present: Representative Hamilton and Senator Sarbanes.

Also present: Lee Price and Carl Delfeld, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE HAMILTON, CHAIRMAN

Representative HAMILTON. The Joint Economic Committee will come to order.

This morning the committee will examine the economic summit held in Houston earlier this month. Our witness will be Richard McCormack, Under Secretary of State for Economic and Agricultural Affairs.

Since the annual summits began 15 years ago, this has been the U.S. official most responsible for negotiating substantive details. Although the summit touched on many issues, four issues received the greatest attention here in the United States—the GATT talks on agricultural policies; the extent and the form of assistance to the Soviet Union in the wake of an ambitious German proposal; the degree of sanctions in China in light of a new Japanese initiative; and environmental policy, particularly on global warming.

The committee is very pleased to welcome Mr. McCormack here. We look forward to your testimony, sir, and you may proceed.

STATEMENT OF RICHARD T. McCORMACK, UNDER SECRETARY FOR ECONOMIC AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. MCCORMACK. Thank you very much. I'm delighted to be here.

Perhaps I might just say, first, a few preliminary words about the general context in which this summit took place to make certain contrasts.

I've been involved with the State Department for nearly a decade now and I've been involved informally in a number of previous summits and I was responsible for the preparation for the Paris Summit last year.

And, I must say, I found the environment this year quite different from—very substantially different from the environment that we had to deal with in the previous administration.

I noticed, for example, the almost complete disappearance of ideology as an issue in the preparatory discussions for this exercise. I recall back early in the Reagan administration, when we had such things as the Cancun Summit, when the President would make observations about the magic of the marketplace and about market economics, you know, the condescension in the room was so thick, you could cut it with a knife.

By contrast today, there is a general acceptance that market economics is the way to go. And that's the way of the future and the basic issues are no longer about market versus nonmarket. The basic issues more often are pragmatic, are how fast will the political situation in a given country permit you to move in directions that you generally would like to go in any case. And that is a much more pragmatic environment in which to have these discussions and there's shared analytical bases that are also important.

In the course of this summit there were, of course, two elements, as there always are. There's the staff preparation, which I'm basically in charge of. And we meet and have in fact a number of meetings, usually beginning 6 months in advance of a summit, to take all the details of international economic policy across the board to move things toward a consensus to the degree we can.

And the second element of the summit is to identify those issues where we, at our level, cannot come to a consensus. And this year we had a number of issues that were—a number of very important issues that simply couldn't be addressed at our level.

And they were the three issues, two of which you've cited, and there was another issue as well. The first issue was the question of the Uruguay Round. We were very concerned as we began the preparations for this summit over the possibility that the Uruguay Round might be deadlocked and that we might wind up with such an uneven Uruguay Round package that by the time it was submitted to Congress next year it simply wouldn't be acceptable.

And the question was, what to do and how to deal with that situation? Our general feeling was that agriculture was the locking point and the question was basically, how to get that moving?

And, as we all know, agriculture is very political in every country and, at our level, we simply couldn't address the issues and I informed my colleagues that the President was going to be carrying this as his major effort in a summit to try and break the deadlock on that question.

There was some resistance to this. Some said that the issues were so technical that leaders could not address them effectively and that there would be merely an exchange of talking points, and it would be very counterproductive, and it would be embarrassing and so on and so on.

Others said it was the only hope we really had of moving this thing forward. Some expressed concern that if we didn't push hard on this thing that the basic issue of agriculture would still be hanging next October and that we wouldn't be able to pull together the other elements of the package.

In any case, the President decided that he would make a major push at this summit. He did; he basically put down the bottom line for the United States that we had to have an effective increase in market access in EEC and elsewhere. That we needed to have progressive reductions of export subsidies, which were compromising the market process in international agriculture across the board.

And he made the point that, without this, we would not be able to get the Third World to make counteroffers in their area and that we would find a very difficult situation, indeed.

Well, there was significant debate back and forth and out of that debate came the results that you know about. Those results were that we—and I think the key paragraphs are paragraphs 22 and 23. And the basic position that we succeeded in doing was we succeeded in getting the de Zeeuw report identified as the key negotiating document that would get this negotiation moving. And these past few days we had some meetings in Geneva where this process picked up from what we accomplished in the summit and moved forward.

The second thing that the leaders agreed to do was to maintain constant personal contact in this negotiation process, which means that, after every phase in this process, the leaders will be consulting and contacting each other right back and forth and phoning each other to keep the political pressure on to make sure that this process doesn't in fact get stymied.

The second key issue that had to be dealt with was the whole question of aid to the Soviet Union. As you know, the President received a letter from Mr. Gorbachev prior to the summit asking for some assistance, asking for some technical assistance, asking for some economic assistance, asking for some increases in investment.

He also asked for a sustained economic dialogue. As you know, the Germans and, to a degree, the French were anxious to move forward rapidly with substantial amounts of direct economic assistance to the Soviet Union.

The President was very reluctant to move in that direction. It was his view that, when the Soviets were spending between 18 and 25 percent of their GNP on military hardware and military expenditures, that it was not fully appropriate for the United States to start making substantial economic contributions directly to the Soviet Union. That, if the Soviet Union was serious about wanting assistance from the West, they needed to move more aggressively to dismantle the military apparatus that causes us to spend very large amounts of money each year to counter.

He was also concerned about the money they're spending on Cuba and was questioning the appropriateness of providing large amounts of American assistance when we were, at the same time, getting assistance, direct assistance, from the Soviets to Cuba, a country which had not been, to say the least, a full participant in the human rights processes that we value so highly and that have stimulated revolution and violence in El Salvador and other places. So he had strong objections to this.

On the other hand, it was clear that the situation with regard to the Soviet Union has substantially eased. That the sheer level of fear that has pervaded the international climate over the course of the last 40 years is markedly reduced. It's clear that the military

threat from the Warsaw Pact and others is less than it was, substantially less than it was. And there was an expectation that things would continue to improve and that, under current circumstances, we were in fact prepared to go ahead with technical assistance.

The question was, what kind and under what circumstances? Prior to the summit, the EEC had a meeting at the heads level where they decided they would engage in a major study to examine the Soviet economy and decide how aid would be most helpful.

The President, at the summit, said that he did not feel it would be fully appropriate for the United States to be engaged in this particular study, since it seemed to have a predetermined outcome and, since it was done basically without the presence of the United States, that we needed to have a study headed by an organization that we were all full members of. And the Japanese and the Canadians fully concurred in this.

So we asked the IMF to head up an effort that would involve the World Bank, that would involve the EBRD, that would involve the OECD to examine the Soviet economy across the board and see what kind of plan could be devised to help them move in a more market-oriented direction and to get their economy, as I say, moving in a more healthy direction.

This was in fact decided upon at the summit and, in the last few days, there have been meetings of the organizations involved to plan their trip to Moscow to begin the examination that would flow from this exercise. My own hope is that out of this thing will come a detailed plan to help the Soviets get their economy moving in the right direction and my sense is that, under current circumstances in the Soviet Union, there does not seem to be a lot of enthusiasm behind Mr. Gorbachev's general economic moves.

The economy is in fact deteriorating. There are tremendous pressures from the various regions that are centrifugal and, unless they can somehow get their economy going, one can look in the future and see a great deal of instability in that enormous land mass. So one hopes that, using the best intellects that the West has to offer, we can come up with a plan that will have sufficient credibility to enable Gorbachev to actually implement this plan.

And, as I said, the IMF is now beginning to organize this. And I spoke last night with Mr. Convasu. He's about to leave for Moscow to have detailed consultations with the Soviets. And I would hope something very good will come out of that.

A third issue that was discussed was the question of aid to—what to do about China. There was a sense in the discussions that we had that things had made some improvements—there were some improvements in China. There has been some release of prisoners; some people who'd been detained had been released. The general level of fear and repression had been somewhat lifted according to visitors that had been there and come back and reported to us.

But there was still a sense that there was a long way to go and there was an unwillingness on the part of the summit participants to simply abandon the various sanctions that had been maintained, particularly those that would involve aid from the multilateral banks, the World Bank. And there was an understanding that one would continue those with the thought that, should there be some

subsequent improvements, that one could gradually lift things a bit, but that one would be waiting to see subsequent improvements before one moved in that direction.

There was also an agreement that the Japanese could in fact move forward with their yen. They told us they were going to do this. We said that they could if they wished and they are going to make a substantial yen loan to China at this particular point. But they will maintain the discipline that we hitherto maintained in places like the World Bank.

The one change we did agree to was to allow—to say that we would support loans that would be aimed at moving China in a more market-oriented direction, particularly those loans that would have important environmental impact, positive environmental impact.

The fourth issue where we had significant discussions had to do with the whole question of environment and, specifically, global warming. Here, there was significant disagreement among us as we went into this process. The Germans and others were most anxious to move ahead with setting targets and timetables for CO_2 emissions and other greenhouse gases.

As you know, our administration feels that we should have the benefit of significant amounts of research that we have hitherto launched, previously launched, prior to making decisions that are going to have such a far-reaching impact on our economy. So we were anxious to—while we wanted to go ahead with a convention on global warming and examine the situation and make general recommendations, we were unwilling to negotiate simultaneous protocols dealing with measures that would have mandated reductions in CO_2 emissions and other greenhouse gases.

There was also a sense that, in the case of the United States, the measures that we have hitherto agreed to do, including phasing out of chlorofluorocarbons, the planting of large numbers of trees and a whole series of other measures that would have taken, will in fact have the effect of stabilizing greenhouse gases at current levels in the year 2000.

What will not happen is, after the year 2000, that the level of greenhouse gases in the atmosphere that we would generate would increase under current projections but that we have some time, based upon what we're already doing, where we ourselves are not going to be worsening the situation but in fact will have stabilized. So there was a sense on our part that, before we make decisions that could involve as much as a trillion dollars, we should have a very careful analysis of the causes and consequences of global warming and there were intensive discussions among the heads on this general issue.

And at the end of the day, the general position of the United States was upheld. That we would go ahead with the convention, that we would not, at this particular point, make a decision to go ahead with protocols and that we would await results of further research. But we would do things that are warranted in their own right.

The President made a strong appeal to his heads, to fellow heads, to go ahead with a major new convention on forests. He was concerned about the deterioration of forests in various parts of the

world and the potential consequence this would have. And noted that, if we were able to reverse this and get these forests stabilized and then expanding again, this would in fact have the effect of locking up CO_2 should it in fact be decided that we needed to move more in that direction.

So the other heads agreed that they would in fact have an agreement on world forests, ranging in everything from the problem of the Waldsterben, the dying of the forests in Germany, which was terribly preoccupying to Mr. Kohl, to the problem of Brazilian rain forest deterioration, which was also of great concern to all the leaders, to more modest problems such as Haiti, where we see deforestation occurring and the hideous consequences of that on that particular island as an example of a broader problem.

So that is how the major issues emerge from this thing. On the issues of debt, there was a general sense that the Brady plan, with all of its ramifications, was adequate at this particular point for dealing with commercial debt.

There was some question about the Paris Club and what could be done to be a bit more helpful on Paris Club issues. And there was a general understanding that we would agree to extend Toronto terms to the lower-middle-income debtors and that we would examine, on a case-by-case basis, what might be done elsewhere.

There was no consensus on dealing with the official indebtedness of the middle-income debtors, but it was something that was referred to the Paris Club for further discussions.

There was also a sense that the greatest thing we could do to help the developed countries was to keep our trading systems open, was to have a successful Uruguay Round, was to permit Third World agriculture to flow more toward the markets of the West and to do a number of other things that would be helpful to them.

There was also a sense that it was important for us to try to keep our own interest rates down. That means, in our case, putting less pressure on our fiscal policy, which would then result in less pressure on our monetary policy and that this would have a tremendously beneficial effect on the Third World countries, in addition to benefiting ourselves enormously.

There was general praise for the President's position that he has taken publicly with regard to the budget summit and a sense that this effort should be supported. And there was a tremendous sense of hope that this thing would result in important success for us and so would have an important benefit elsewhere.

On the political statement—on narcotics, there was a sense of appreciation for what had been accomplished last year in the Financial Action Task Force, which is going to help monitor drug money around the world. And there was a hope that they could extend this process to look at precursor chemicals and try to get discipline on the export and shipping of precursor chemicals in the drug area. And it was agreed that they would mount an intensive effort to try and negotiate something along those lines.

In the political statement, it more or less speaks for itself. It points out that we have had an enormous progress toward democracy in the course of the last 10 to 15 years and that we need to do what we can to help consolidate that.

It examined issues such as how we could deal with terrorism and that was an effort to try to get tracer chemicals put in plastic explosives and get that built right into the manufacturing process so that they could be more easily traced going through airports—going through screeners at airports.

There was a sense we need to be more effective in our dealing with nuclear nonproliferation.

So that, in essence, are some of the highlights of the summit. Obviously, in a communique as long and as detailed as this one has been, I cannot go into every single issue but at this point I would be happy to stop and pause for any questions that you might have.

I have brought with me, I should say, Ms. Early, from the U.S. Trade Representative's Office, who would be happy to talk about in some detail, should you have questions, on the GATT process.

[A complete briefing paper of the Houston Summit follows:]

BRIEFING PAPER

UNCLASSIFIED

THE HOUSTON SUMMIT

- The United States achieved its single most important objective of giving political momentum to the Uruguay Round.

- The two other central issues were possible aid to the USSR and the environment.

- Special consideration was also given to the special needs of the developing world and the narcotics problem.

The Uruguay Round

- The communique's extensive treatment of the Uruguay Round in all its negotiating areas reflects G-7 determination to obtain ambitious and far-reaching agreements that include substantive commitments from all participants, including the developing countries.

- The leaders engaged in a frank discussion of the problems confronting the negotiations and expressed their "determination to take the difficult political decisions necessary to achieve far-reaching substantial results" by the end of the year.

  - The leaders confirmed their "strong support" for the essential broad objectives of the negotiations: reform of agricultural policies; a substantial and balanced package of measures to improve market access; strengthened multilateral rules and disciplines; the incorporation of new issues of services, trade-related investment measures, and intellectual property protection within the GATT framework; and integration of developing countries into the international trading system.

- Special attention was given to the agricultural issue which must be resolved soon if the rest of the Uruguay Round package is to be successfully negotiated.

  - The communique strengthened our ability to obtain fundamental agricultural reform.

  - For the first time, the leaders recognized that each of them will have to make "substantial progressive reductions in support and protection of agriculture" covering internal regimes, market access and export subsidies.

  - They pledged "to maintain a high level of personal involvement and to exercise the political leadership necessary to ensure the successful outcome."

- They asserted that a framework for negotiating the agricultural problem should be agreed upon by the time of the critical July meeting of the Trade Negotiating Committee.

- The leaders' commendation of the report of the Chairman of the Agricultural Negotiating Group (de Zeeuw) is important as a means to intensify the negotiations and because it would require the EC to modify its position focussing on the aggregate measure of support (which does not provide firm discipline over export subsidies and permits some import restraints to actually increase).

The USSR

o In response to Gorbachev's letter suggesting economic assistance, the Summit leaders responded cautiously. While recognizing the importance of perestroika, the leaders:

  - Declared that technical assistance "should be provided now to help the Soviet Union move to a market-oriented economy. . . "

  - Agreed that the prospects for "meaningful and sustained" economic assistance would be improved by further Soviet decisions "to introduce more radical steps toward a market-oriented economy, to shift resources substantially away from the military and to cut support to nations promoting regional conflict..."

  - Agreed to ask the IMF, the World Bank, the OECD, and the designated president of the EBRD, in consultation with the EC, to study the Soviet economy and establish criteria for Western assistance that would support recommended reforms.

The Environment

o The leaders made a balanced statement on the environment:

  - They agreed that "in the face of threats of irreversible environmental damage, lack of full scientific centainty is no excuse to postpone actions which are justified in their own right" and recognized the need for expanded cooperative scientific and economic research. At the same time, they recognized that "strong, growing market-oriented economies provide the best means for successful environmental protection."

- They welcomed the progress made through the Montreal Protocol to phase out CFCs by the year 2000 and to extend coverage to other ozone depleting substances.

- They recognized the "key importance" of the climate change and importance of enhanced levels of cooperation with respect to science and the study of the economic implications of steps to combat global warming.

- The leaders recognized the "key importance" of climate change and stated their commitment "to undertake common efforts to limit emissions of greenhouse gases." Cooperation, they said, will be necessary with regard to the science and impacts of climate change and the economic implication of possible response strategies as well as on developing new technologies and measures to control greenhouse emissions.

- It was noted that the destruction of forests had reached "alarming proportions" and new measures must be taken to curb deforestation and address threats to the world's forests. In addition to endorsing a German-proposed pilot program for Brazil's tropical rain forests and agreeing to reform and strengthen the Tropical Forest Action Plan, the leaders are ready to begin negotiation, as expeditiously as possible, on a new U.S.-proposed global forestry convention.

The Developing Countries

o The problems of the developing countries were addressed at length in the communique. The leaders:

  - Noted that a successful Uruguay Round is one of the most important things that can be achieved for the economic progress of the G-7 nations, Eastern Europe, and the developing world alike.

  - They recognized that prosperity in the developing world also depends on prosperity and price stability in the advanced industrialized countries.

o The leaders reiterated their commitment to the developing world will not be weakened by developments in Eastern Europe and asserted that the poorest developing nations must remain the focus of "special attention".

o The Paris Club was encouraged to lengthen repayment periods for lower middle-income countries implementing strong reform programs and to review additional options to address official debt problems.

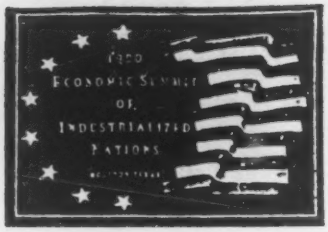
- President Bush's recent Enterprise for the Americas initiative was thought to hold "great promise for the region."

Narcotics:

- Significant progress was made on cooperation to control the traffic in narcotics.
  - The strategy for attacking the cocaine trade outlined in the Cartagena Declaration was supported by the leaders.
  - A new task force was commissioned to address the precursor chemicals problem.

Political Statement

- In a separate political statement, the leaders:
  - Saluted the historic movement toward democracy during the past year.
  - Welcomed the movement toward reform in the Soviet Union.
  - Noted that the movement toward democracy has occurred not simply in Eastern Europe, but is widespread, including Chile, Nicaragua, Namibia, and numerous other countries.
  - Agreed to maintain measures put in place regarding loans to China, while also keeping them under review. They will also explore whether there are World Bank loans, in addition to those for basic human needs, that would contribute to reform of the Chinese economy.
- Certain transnational problems were addressed as well -- namely, terrorism and non-proliferation. The G-7 nations:
  - Pledged to continue cooperation to negotiate a convention to require additives into plastic explosives to aid in their detection.
  - Urged all nuclear suppliers to adopt nuclear export control measures equivalent to the Nuclear Suppliers Group Guidelines.
  - Committed themselves to working for a satisfactory outcome to nuclear non-proliferation discussions.



For Immediate Release July 10, 1990

POLITICAL DECLARATION

SECURING DEMOCRACY

1. We, the Leaders of our seven countries and the Representatives of the European Community, salute the men and women around the world whose courage and wisdom have inspired and brought about the historic advances of democracy we have witnessed over the past year. As we enter the final decade of this century, which we intend should be a Decade of Democracy, we reiterate our commitment to support the strengthening of democracy, human rights, and economic reconstruction and development through market-oriented economies. We emphasize the important opportunity provided in this forum for representatives from Europe, Japan, and North America to discuss critical challenges of the coming years.

2. Europe is at the dawn of a new era. We welcome enthusiastically the profound and historic changes sweeping the continent. The London Declaration on a Transformed North Atlantic Alliance provides a new basis for cooperation among former adversaries in building a stable, secure, and peaceful Europe. We are determined to seize all opportunities to achieve a Europe whole and free and recognize the European Community's contribution to that effort. We applaud the unification of Germany, which is a tangible expression of mankind's inalienable right to self-determination and a major contribution to stability in Europe.

We welcome the replacement of repressive regimes in Central and Eastern Europe by governments freely chosen by their peoples. We applaud the introduction of the rule of law and the freedoms that are the bedrock of a democratic state. We urge Romania, following recent events, to adhere to the positive trend taking place in other countries of Central and Eastern Europe.

3. We welcome the intention of the Soviet Union to move toward a democratic political system, as well as Soviet attempts to reform their economy along market principles. We commit ourselves to working with the Soviet Union to assist its efforts to create an open society, a pluralistic democracy, and a market-oriented economy. Such changes will enable the Soviet Union to fulfill its responsibilities in the community of nations founded on these principles. We are heartened by indications that a constructive dialogue is underway between the Soviet government and the Baltic states, and we urge all sides to continue this dialogue in a democratic spirit.

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4. The advance of democracy accompanied by market-oriented economic reforms is not just a European phenomenon. Since we last met, we have witnessed the spread of democratic values in many parts of the world.

In Asia, there are encouraging signs of new political openness in Mongolia and Nepal. In the Philippines, the government continues to engage in courageous efforts to consolidate democracy.

We acknowledge some of the recent developments in China, but believe that the prospects for closer cooperation will be enhanced by renewed political and economic reform, particularly in the field of human rights. We agree to maintain the measures put into place at last year's Summit, as modified over the course of this year. We will keep them under review for future adjustments to respond to further positive developments in China. For example, in addition to existing lending to meet basic human needs, we will explore whether there are other World Bank loans that would contribute to reform of the Chinese economy, especially loans that would address environmental concerns.

5. In Africa, we hope that Namibia's attainment of independence and democracy will be a positive example for freedom, pluralism, and market-oriented economic reform throughout the continent. We also welcome the positive developments that have taken place in South Africa, especially the launching of talks between the government and representatives of the black majority. We hope this will lead to a peaceful transition to a non-racial democracy and the complete dismantlement of the apartheid system. We will continue to support this process and we call on all parties to refrain from violence or its advocacy.

6. In Latin America, we welcome the re-establishment of freedom and democracy in Chile. We applaud the recent fair and free elections in Nicaragua, as well as progress on the path to peace through dialogue in El Salvador and Guatemala. We encourage the efforts of the Panamanian government to re-establish democracy and the rule of law. We note with satisfaction the positive evolution in Haiti. We hope that Cuba will take steps to join the democratic trend in the rest of Latin America.

7. While we applaud the reduction of ideological conflicts that have divided much of the world since the end of the Second World War, we note with deep concern the reemergence of intolerance affecting ethnic and religious groups. We agree that such intolerance can lead to conflicts, which can threaten fundamental human rights, as well as political and economic development.

8. We reaffirm our commitment to the fundamental principles we seek to realize in our own societies, and we underscore that political and economic freedoms are closely linked and mutually reinforcing. Each of us stands ready to help in practical ways those countries that choose freedom, through the provision of constitutional, legal, and economic know-how and through economic assistance, as appropriate.

In drawing from our different constitutional and historical experiences, we stand ready, individually and jointly in relevant fora, to:

-- assist in the drafting of laws, including bills of rights and civil, criminal, and economic framework laws;

-- advise in the fostering of independent media;

-- establish training programs in government, management, and technical fields;

-- develop and expand people-to-people contacts and exchange programs to help diffuse understanding and knowledge.

In the same spirit, the recent G-24 Ministerial agreed to extend its assistance in Central and Eastern Europe in parallel with progress in political and economic reform.

We agree the challenge facing the industrialized democracies is to continue the effort already underway in Europe while expanding efforts to support political reform and economic development in other parts of the world. We call on our people and the people of other democracies to join in this great endeavor.

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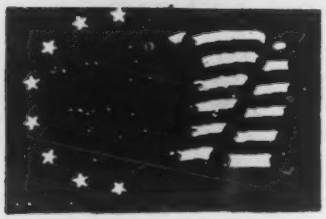

HOUSTON ECONOMIC DECLARATION

July 11, 1990

1. We, the Heads of State and Government of the seven major industrial democracies and the President of the Commission of the European Communities, meeting in Houston for our annual Economic Summit, celebrate the renaissance of democracy throughout much of the world. We welcome unreservedly the spread of multiparty democracy, the practice of free elections, the freedom of expression and assembly, the increased respect for human rights, the rule of law, and the increasing recognition of the principles of the open and competitive economy. These events proclaim loudly man's inalienable rights: When people are free to choose, they choose freedom.

2. The profound changes taking place in Europe, and progress toward democracy elsewhere, give us great hope for a world in which individuals have increasing opportunities to achieve their economic and political aspirations, free of tyranny and oppression.

3. We are mindful that freedom and economic prosperity are closely linked and mutually reinforcing. Sustainable economic prosperity depends upon the stimulus of competition and the encouragement of enterprise -- on incentives for individual initiative and innovation, on a skilled and motivated labor force whose fundamental rights are protected, on sound monetary systems, on an open system of international trade and payments, and on an environment safeguarded for future generations.

4. Around the world, we are determined to assist other peoples to achieve and sustain economic prosperity and political freedom. We will support their efforts with our experience, resources, and goodwill.

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THE INTERNATIONAL ECONOMIC SITUATION

5. In recent years, substantial progress has been achieved in promoting a stronger world economy through sound macroeconomic policies and greater economic efficiency. The economic expansion in our countries, now in its eighth year, has supported notable income growth and job creation in the context of rapid growth of international trade. However, unemployment remains high in a number of countries. Inflation, although considerably lower than in the early 1980s, is a matter of serious concern in some countries and requires continued vigilance. External imbalances have been reduced in the United States and Japan, whereas in other cases they have increased. Continuing adjustment remains a priority in order to counter protectionist pressures, alleviate uncertainties in financial and exchange markets, and contribute to avoiding pressures on interest rates. Sound domestic macroeconomic policies, which may differ according to conditions in each country, will make a major contribution to further external adjustment.

6. In the developing world, the experience of the late 1980s varied widely. Some economies, particularly in East Asia, continued to experience impressive domestic growth rates. The economies of a number of other developing countries have been stagnant or declined. Nonetheless, serious efforts -- in some cases by new leadership -- to implement economic adjustment and market-oriented policies have begun to yield positive results and should be continued.

INTERNATIONAL MONETARY DEVELOPMENTS AND POLICY COORDINATION

7. At a time of growing economic interdependence, the Summit countries have developed a cooperative process based on a common appreciation of the need for market-oriented policies and the importance of sound domestic budgetary and monetary policies. This process has contributed importantly to the strengthened performance of the world economy and to improved stability of exchange rates by concentrating attention on multilateral surveillance and close coordination of economic policies, including cooperation on exchange markets. It is important to continue and, where appropriate, to strengthen this cooperative and flexible approach to improve the functioning of the international monetary system and contribute to its stability.

8. To sustain the present economic expansion to the benefit of all countries, each nation must pursue sound policies. Balanced expansion of demand with increasing productive capacity is key, while external imbalances and structural rigidities require correction. Price pressures warrant continued vigilance.

9. Countries with sizable current account deficits should contribute to the adjustment process by the reduction of fiscal deficits, and undertake structural reforms to encourage private saving and increase competitiveness.

10. Countries with large external surpluses should contribute to the adjustment process by sustained non-inflationary growth of domestic demand with structural reform in order to improve the underlying conditions for growth and adjustment and to promote increased investment relative to saving.

11. The investment needs of the world as a whole are expected to grow in the coming years, particularly in Central and Eastern Europe and in developing countries undertaking market reforms, as well as in some industrial countries. To meet these needs, industrial and developing countries alike should foster saving and discourage dissaving.

12. The market-oriented restructuring of Central and Eastern European economies should stimulate their growth and increase their integration into the global economy. We support these changes and seek to assure that this difficult transformation will contribute to global growth and stability.

13. Within the European Community, the European Monetary System is leading to a high degree of economic convergence and stability. We note the European Community's decision to launch the Intergovernmental Conference on Economic and Monetary Union and the beginning of the first stage of that union. During this first stage, closer surveillance and coordination of economic and monetary policies will contribute toward non-inflationary growth and a more robust international economic system.

14. We welcome the prospect of a unified, democratic Germany which enjoys full sovereignty without discriminatory constraints. German economic, monetary, and social union will contribute to improved non-inflationary global growth and to a reduction of external imbalances. This process will promote positive economic developments in Central and Eastern Europe.

15. We call on the member countries of the International Monetary Fund (IMF) to implement the agreement by the IMF to increase quotas by 50 percent under the Ninth General Review of Quotas and to strengthen the IMF arrears strategy.

Measures Aimed at Economic Efficiency

16. Considerable progress has been made over the past few years in supplementing macroeconomic policies with reforms to increase economic efficiency. We welcome the progress in the realization of the internal market in the European Community and the continuing efforts to reduce structural rigidities in North America and Japan. Nonetheless, we emphasize the widespread need for further steps to

promote regulatory reform and liberalise areas such as retail trade, telecommunications, transport, labor markets, and financial markets, as well as to reduce industrial and agricultural subsidies, improve tax systems, and improve labor-force skills through education and training.

17. We welcome the major contributions of the Organisation for Economic Cooperation and Development (OECD) in identifying structural policy challenges and options. We encourage the OECD to strengthen its surveillance and review procedures, and to find ways of making its work operationally more effective.

THE INTERNATIONAL TRADING SYSTEM

18. The open world trading system is vital to economic prosperity. A strengthened General Agreement on Tariffs and Trade (GATT) is essential to provide a stable framework for the expansion of trade and the fuller integration of Central and Eastern Europe and developing countries into the global economy. We reject protectionism in all its forms.

19. The successful outcome of the Uruguay Round has the highest priority on the international economic agenda. Consequently, we stress our determination to take the difficult political decisions necessary to achieve far-reaching, substantial results in all areas of the Uruguay Round by the end of this year. We instruct our negotiators to make progress and in particular to agree on the complete profile of the final package by the July meeting of the Trade Negotiations Committee.

20. We confirm our strong support for the essential broad objectives of the negotiations: reform of agricultural policies; a substantial and balanced package of measures to improve market access; strengthened multilateral rules and disciplines; the incorporation of new issues of services, trade-related investment measures, and intellectual property protection within the GATT framework; and integration of developing countries into the international trading system.

21. As regards agriculture, achieving the long-term objective of the reform of agricultural policies is critical to permit the greater liberalization of trade in agricultural products. Experience has shown the high cost of agricultural policies which tend to create surpluses. The outcome of the GATT negotiations on agriculture should lead to a better balance between supply and demand and ensure that agricultural policies do not impede the effective functioning of international markets. We therefore reaffirm our commitment to the long-term objective of the reform,

i.e., to allow market signals to influence agriculture production and to establish a fair and market-oriented agricultural trading system.

22. The achievement of this objective requires each of us to make substantial, progressive reductions in support and protection of agriculture -- covering internal regimes, market access, and export subsidies -- and develop rules governing sanitary and phytosanitary measures. Variations among countries in the mechanisms of agricultural support reflect differences in the social and economic conditions of farming. The negotiations on agriculture should therefore be conducted in a framework that includes a common instrument of measurement, provides for commitments to be made in an equitable way among all countries, and takes into account concerns about food security. The framework should contain specific assurances that, by appropriate use of the common measure as well as other ways, participants would reduce not only internal support but also export subsidies and import protection in a related way.

23. Agreement on such a framework by the time of the July meeting of the Trade Negotiations Committee is critical to the successful completion of the Uruguay Round as a whole. Accordingly, we commend to our negotiators the text submitted by the Chairman of the Agricultural Negotiating Group as a means to intensify the negotiations. We intend to maintain a high level of personal involvement and to exercise the political leadership necessary to ensure the successful outcome of these negotiations.

24. Negotiations on market access should achieve agreement on a substantial and balanced package of measures. As regards textiles, the objective is to liberalize the textile and clothing sector through progressive dismantling of trade barriers and its integration, under a precise timetable, into GATT on the basis of strengthened GATT rules and disciplines.

25. Negotiations on multilateral rules and disciplines should strengthen GATT rules in areas such as safeguards, balance of payments, rules of origin, and updated disciplines for dumping and antidumping measures. Concerning subsidies, rules are needed which will effectively discipline domestic subsidies so as to avoid trade distortions, competitive subsidization, and trade conflicts. Improved disciplines must also cover countervailing measures so that they do not become barriers to trade.

26. As regards the new areas, the aim is to develop new rules and procedures within the GATT framework, including: a framework of contractually enforceable rules to liberalize services trade, with no sector excluded a priori; an agreement to reduce trade distorting effects of trade-related investment measures; and an agreement to provide for standards and effective enforcement of all intellectual property rights.

27. A successful Uruguay Round is essential for industrialized and

developing countries alike. We seek the widest possible participation of developing countries in the Round and their further integration into the multilateral trading system. To achieve this objective, developed countries are prepared to accept greater multilateral disciplines in all areas and to offer improved market access in areas of interest to developing countries such as textiles and clothing, tropical products, and agriculture.

28. For their part, developing countries should substantially reduce their tariffs and increase the percentage of tariffs that are bound; subscribe to balanced and effective restraints on all forms of exceptions, including measures imposed for balance-of-payments difficulties; and participate meaningfully in agreements covering the new areas. The end result should be a single set of multilateral rules applicable to all GATT contracting parties, although some developing countries, especially the least developed, may need longer transition periods or other transitional arrangements on a case by case basis.

29. The wide range of substantive results which we seek in all these areas will call for a commitment to strengthen further the institutional framework of the multilateral trading system. In that context, the concept of an international trade organization should be addressed at the conclusion of the Uruguay Round. We also need to improve the dispute-settlement process in order to implement the results of the negotiations effectively. This should lead to a commitment to operate only under the multilateral rules.

DIRECT INVESTMENT

30. Free flows of investment increase global prosperity by complementing the open international trade system. In particular, foreign direct investment can help restructure the economies of developing and Central and Eastern European countries, create new jobs, and raise living standards.

31. All countries should therefore seek to reduce their barriers to investment and resist protectionist pressures to discourage or discriminate against such investment. The OECD and the GATT should continue to promote investment liberalization. The multilateral development banks and the IMF should require investment liberalization in their programs in Central and Eastern Europe and developing countries.

EXPORT CREDITS

32. We welcome the important negotiations that are underway in the OECD on a balanced package of measures to strengthen multilateral

disciplines on trade- and aid-distorting export credit subsidies. This package, to be completed by spring of 1991, should reduce substantially, through improved discipline and transparency, distortions resulting from the use of officially supported commercial and aid credits. It is also important to avoid introducing trade distortions in financial flows to the nations of Central and Eastern Europe.

REFORM IN CENTRAL AND EASTERN EUROPE

33. We welcome the political and economic reforms taking place in Central and Eastern Europe. At the recent Conference on Security and Cooperation in Europe (CSCE) in Bonn and by the agreement to establish the European Bank for Reconstruction and Development (EBRD), the participating countries of the region accepted the key principles underpinning market economies. However, the degree of implementation of economic and political reform varies widely by country. Several countries have taken courageous and difficult measures to stabilize their economies and shorten the transition to a market economy.

34. We and other countries should assist Central and Eastern European nations that are firmly committed to economic and political reform. Those providing help should favor countries that implement such reforms.

35. Foreign private investment will be vital in the development of Central and Eastern Europe. Capital will flow to countries with open markets and hospitable investment climates. Improved access for their exports will also be important for those Central and Eastern European countries that are opening up their economies. Western Governments can support this process by various means, including trade and investment agreements. The recent decision by the Coordinating Committee for Multilateral Export Controls (COCOM) to liberalize export controls is a positive step.

36. We commend the work done by the Commission of the European Communities on the coordination by the Group of 24 (G-24) of assistance to Poland and Hungary inaugurated at the Summit of the Arch, which has made a significant contribution to helping these countries lay the foundation for self-sustaining growth based on market principles. We welcome the decision of the G-24 to enlarge the coordination of assistance to other emerging democracies in Central and Eastern Europe, including Yugoslavia.

37. We recognize that these countries face major problems in cleaning their environment. It will be important to assist the countries of Central and Eastern Europe to develop the necessary policies and infrastructure to confront those environmental problems.

38. We also welcome the recent initiatives in regional cooperation, e.g., in transport and the environment, that will make a positive contribution to economic progress and stability in the region.

39. We expect the new EBRD to play a key role in fostering investment in those countries and to contribute to orderly transitions toward market economies and a sound basis for democracy. We urge the rapid entry into force of the Bank.

40. The Center for Cooperation with European Economies in Transition at the OECD will encourage reforms and strengthen relations between these countries and the OECD, as will the OECD's follow up work from the CSCE Economic Conference in Bonn.

41. We invite the OECD to consider a closer relationship with those Central and East European countries that are committed to political and economic reform.

THE SOVIET UNION

42. We discussed the situation in the Soviet Union, and exchanged views regarding the message that Soviet President Gorbachev sent us several days ago on his economic plans. We welcome the efforts underway in the Soviet Union to liberalize and to create a more open, democratic, and pluralistic Soviet society, and to move toward a market-oriented economy. These measures deserve our support. The success of perestroika depends upon the determined pursuit and development of these reform efforts. In particular, we welcome President Gorbachev's suggestion for a sustained economic dialogue.

43. We have all begun, individually and collectively, to assist these reform efforts. We all believe that technical assistance should be provided now to help the Soviet Union move to a market-oriented economy and to mobilize its own resources. Some countries are already in a position to extend large scale financial credits.

44. We also agreed that further Soviet decisions to introduce more radical steps toward a market-oriented economy, to shift resources substantially away from the military sector and to cut support to nations promoting regional conflict will all improve the prospect for meaningful and sustained economic assistance.

45. We have taken note of the decision of the European Council in Dublin on June 26. We have agreed to ask the IMF, the World Bank, the OECD and the designated president of the EBRD to undertake, in close consultation with the Commission of the European Communities, a detailed study of the Soviet economy, to make recommendations for

its reform and to establish the criteria under which Western economic assistance could effectively support these reforms. This work should be completed by year's end and be convened by the IMF.

46. We took note of the importance to the Government of Japan of the peaceful resolution of its dispute with the Soviet Union over the Northern Territories.

47. The host Government will convey to the Soviet Union the results of the Houston Summit.

THE DEVELOPING NATIONS

48. We reiterate that our commitment to the developing world will not be weakened by the support for reforming countries in Central and Eastern Europe. The poorest of the developing nations must remain the focus of special attention. The International Development Association replenishment of SDR 11.6 billion, agreed to last December, will provide needed resources for these countries, and marks the incorporation of environmental concerns into development lending. It is our intention to take a constructive part in the Paris Conference on the least developed countries in September.

49. The advanced industrial economies can make a number of major contributions to the long-run development of the developing countries. By sustaining economic growth and price stability, we can offer stable, growing markets and sources of capital for the developing world. By providing financial and technical support to developing countries undertaking genuine political and economic reform, we can reinforce their ongoing liberalization. The industrialized nations should continue to make efforts to enhance their development aid and other forms of assistance to the developing countries, including reinforcing the effectiveness of the aid.

50. In the developing world, there is a growing acceptance of the view that growth can be encouraged by a stable macroeconomic framework, sectoral reform to provide more competition, and an opening of markets. Open, democratic, and accountable political systems are important ingredients in the effective and equitable operation of market-oriented economies.

51. Important contributions to a hospitable investment climate can be made by the protection of intellectual property, and by liberalization of investment regimes, including transparent and equitable investment rules, and equality of treatment for foreign and domestic investors.

52. The recent Enterprise for the Americas initiative announced by the U.S. President will support and encourage more market-oriented policies in Latin America and the Caribbean. We believe that such U.S. efforts hold great promise for the region and will help

improve prospects for sustained growth in the Americas through the encouragement of trade, open investment regimes, the reduction of U.S. bilateral concessional debt and the use of debt for equity and nature swaps.

53. In a number of countries, sustainable development requires that population growth remains in some reasonable balance with expanding resources. Supporting the efforts of developing countries to maintain this balance is a priority. Improved educational opportunities for women and their greater integration into the economy can make important contributions to population stabilization programs.

54. In the Mediterranean basin, the initiatives of economic integration, which are underway, deserve encouragement and support.

THIRD WORLD DEBT

55. Significant progress has been made during the past year under the strengthened debt strategy, which has renewed the resolve in a number of debtor countries to continue economic reforms essential to future growth. In particular, the recent commercial bank agreements with Chile, Costa Rica, Mexico, Morocco, the Philippines, and Venezuela involve significant debt and debt-service reduction. Important financial support for debt and debt-service reduction is being provided by the IMF and the World Bank, as well as by Japan. The Paris Club has agreed, in order to support medium term IMF-supported reform and financing programs, to provide adequate restructuring agreements, notably through multiyear reschedulings and through lengthening of the repayment period. The combination of debtor reform efforts and commercial bank debt reduction has had a notable impact on confidence in debtor economies, as clearly demonstrated through flows of both new investment and the return of flight capital to Mexico, in particular.

56. These measures represent major innovations in the case by case debt strategy and are potentially available to all debtor nations with serious debt-servicing problems which are implementing economic adjustment policies.

57. The adoption by debtor nations of strong economic reform programs with the IMF and World Bank remains at the heart of the debt strategy, and a prerequisite for debt and debt service reduction within commercial bank financing packages. It is vital that debtor countries adopt measures to mobilize savings and to encourage new investment flows and the repatriation of flight capital to help sustain their recovery. In this connection, the

recent U.S. Enterprise for the Americas initiative to support investment reform and the environment in Latin America needs to be given careful consideration by Finance Ministers.

58. For countries implementing courageous reforms, commercial banks should take realistic and constructive approaches in their negotiations to conclude promptly agreements on financial packages including debt reduction, debt-service reduction and new money.

59. Creditor nations will continue to play an important role in this process through ongoing contributions to the international financial institutions, rescheduling of official debt in the Paris Club, and new finance. We encourage the Paris Club to continue reviewing additional options to address debt burdens. In the case of the lower middle-income countries implementing strong reform programs, we encourage the Paris Club to lengthen the repayment period, taking account of the special situations of these countries. We welcome the decisions taken by France with respect to Sub-Saharan Africa and by Canada with respect to the Caribbean to alleviate the debt burden of the lower middle-income countries.

60. Creditor governments have also provided special support for the poorest countries through the implementation of Toronto terms in Paris Club reschedulings. All of us have cancelled official development assistance (ODA) debt for the poorest countries. We encourage the Paris Club to review the implementation of the existing options that apply to the poorest countries.

61. We note and will study with interest the Craxi Report on debt commissioned by the UN Secretary General.

THE ENVIRONMENT

62. One of our most important responsibilities is to pass on to future generations an environment whose health, beauty, and economic potential are not threatened. Environmental challenges such as climate change, ozone depletion, deforestation, marine pollution, and loss of biological diversity require closer and more effective international cooperation and concrete action. We as industrialized countries have an obligation to be leaders in meeting these challenges. We agree that, in the face of threats of irreversible environmental damage, lack of full scientific certainty is no excuse to postpone actions which are justified in their own right. We recognize that strong, growing, market-oriented economies provide the best means for successful environmental protection.

63. Climate change is of key importance. We are committed to undertake common efforts to limit emissions of greenhouse gases, such as carbon dioxide. We strongly support the work of the

Intergovernmental Panel on Climate Change (IPCC) and look forward to the release of its full report in August. The Second World Climate Conference provides the opportunity for all countries to consider the adoption of strategies and measures for limiting or stabilizing greenhouse gas emissions, and to discuss an effective international response. We reiterate our support for the negotiation of a framework convention on climate change, under the auspices of the United Nations Environment Program (UNEP) and the World Meteorological Organization (WMO). The convention should be completed by 1992. Work on appropriate implementing protocols should be undertaken as expeditiously as possible and should consider all sources and sinks.

64. We welcome the amendment of the Montreal Protocol to phase out the use of chlorofluorocarbons (CFCs) by the year 2000 and to extend coverage of the Protocol to other ozone depleting substances. The establishment of a financial mechanism to assist developing countries to tackle ozone depletion marks a new and positive step in cooperation between the developed and developing worlds. We applaud the announcement in London by some major developing countries, including India and China, that they intend to review their position on adherence to the Montreal Protocol and its amendments. We would welcome their adherence as a crucial reinforcement of the effectiveness of the Protocol, which would ultimately lead to a worldwide phase out of ozone depleting substances. We urge all parties to ratify the amended Protocol as quickly as possible.

65. We acknowledge that enhanced levels of cooperation will be necessary with regard to the science and impacts of climate change and economic implications of possible response strategies. We recognize the importance of working together to develop new technologies and methods over the coming decades to complement energy conservation and other measures to reduce carbon dioxide and other greenhouse emissions. We support accelerated scientific and economic research and analysis on the dynamics and potential impact of climate change, and on potential responses of developed and developing countries.

66. We are determined to take action to increase forests, while protecting existing ones and recognizing the sovereign rights of all countries to make use of their natural resources. The destruction of tropical forests has reached alarming proportions. We welcome the commitment of the new Government of Brazil to help arrest this destruction and to provide sustainable forest management. We actively support this process, and we are ready for a new dialogue with developing countries on ways and means to support their efforts. We are ready to cooperate with the

Government of Brazil on a comprehensive pilot program to counteract the threat to tropical rain forests in that country. We ask the World Bank to prepare such a proposal, in close cooperation with the Commission of the European Communities, which should be presented at the latest at the next Economic Summit. We appeal to the other concerned countries to join us in this effort. Experience gained in this pilot program should immediately be shared with other countries faced with tropical forest destruction. The Tropical Forestry Action Plan must be reformed and strengthened, placing more emphasis on forest conservation and protection of biological diversity. The International Tropical Timber Organization action plan must be enhanced to emphasize sustainable forest management and improve market operations.

67. We are ready to begin negotiations, in the appropriate fora, as expeditiously as possible on a global forest convention or agreement, which is needed to curb deforestation, protect biodiversity, stimulate positive forestry actions, and address threats to the world's forests. The convention or agreement should be completed as soon as possible, but no later than 1992. The work of the IPCC and others should be taken into account.

68. The destruction of ecologically sensitive areas around the world continues at an alarming pace. Loss of temperate and tropical forests, developmental pressures on estuaries, wetlands and coral reefs, and destruction of biological diversity are symptomatic. To reverse this trend, we will expand cooperation to combat desertification; expand projects to conserve biological diversity; protect the Antarctic; and assist developing countries in their environmental efforts. We will work within UNEP and other fora to achieve these objectives, and will participate actively in UNEP's work to protect biodiversity.

69. Efforts to protect the environment do not stop at the water's edge. Serious problems are caused by marine pollution, both in the oceans and in coastal areas. A comprehensive strategy should be developed to address land-based sources of pollution; we are committed to helping in this regard. We will continue our efforts to avoid oil spills, urge the early entry into force of the existing International Maritime Organization (IMO) Convention, and welcome the work of that organization in developing an international oil spills convention. We are concerned about the impact of environmental degradation and unregulated fishing practices on living marine resources. We support cooperation in the conservation of living marine resources and recognize the importance of regional fisheries organizations in this respect. We call on all concerned countries to respect the conservation regimes.

70. To cope with energy-related environmental damage, priority must be given to improvements in energy efficiency and to the development of alternative energy sources. For the countries that make such a choice, nuclear energy will continue to be an important

contributor to our energy supply and can play a significant role in reducing the growth of greenhouse gas emissions. Countries should continue efforts to ensure highest worldwide performance standards for nuclear and other energy in order to protect health and the environment, and ensure the highest safety.

71. Cooperation between developed and developing countries is essential to the resolution of global environmental problems. In this regard, the 1992 UN Conference on Environment and Development will be an important opportunity to develop widespread agreement on common action and coordinated plans. We note with interest the conclusions of the Siena Forum on International Law of the Environment and suggest that these should be considered by the 1992 UN Conference on Environment and Development.

72. We recognize that developing countries will benefit from increased financial and technological assistance to help them resolve environmental problems, which are aggravated by poverty and underdevelopment. Multilateral development bank programs should be strengthened to provide greater protection for the environment, including environmental impact assessments and action plans, and to promote energy efficiency. We recognize that debt-for-nature swaps can play a useful role in protecting the environment. We will examine how the World Bank can provide a coordinating role for measures to promote environmental protection.

73. In order to integrate successfully environmental and economic goals, decisionmakers in government and industry require the necessary tools. Expanded cooperative scientific and economic research and analysis on the environment is needed. We recognize the importance of coordinating and the sharing the collection of satellite data on earth and its atmosphere. We welcome and encourage the ongoing discussions for the establishment of an International Network. It is also important to involve the private sector, which has a key role in developing solutions to environmental problems. We encourage the OECD to accelerate its very useful work on environment and the economy. Of particular importance are the early development of environmental indicators and the design of market-oriented approaches that can be used to achieve environmental objectives. We also welcome Canada's offer to host in 1991 an international conference on environmental information in the 21st Century. We support voluntary environmental labelling as a useful market mechanism which satisfies consumer demand and producer requirements and promotes market innovation.

74. We note with satisfaction the successful launching of the Human Frontier Science Program and express our hope that it will make

positive contributions to the advancement of basic research in life science for the benefit of all mankind.

NARCOTICS

75. We urge all nations to accede to and complete ratification of the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention), and to apply provisionally terms of the Convention.

76. We welcome the conclusion of the UN Special Session on Drugs and urge the implementation of the measures contained in the Program of Action it has adopted.

77. We support the declaration adopted at the ministerial meeting on drugs convened by the United Kingdom that drug demand reduction should be accorded the same importance in policy and action as the reduction of illicit supply. Developed countries should adopt stronger prevention efforts and assist demand reduction initiatives in other countries.

78. We endorse the report of the Financial Action Task Force (FATF) and commit our countries to a full implementation of all its recommendations without delay. As agreed at the May meeting of Task Force Finance Ministers, the FATF should be reconvened for a second year, chaired by France, to assess and facilitate the implementation of these recommendations, and to complement them where appropriate. All OECD and financial center countries that subscribe to the recommendations of the Task Force should be invited to participate in this exercise. The report of the new FATF would be completed before we next meet. We also invite all other countries to participate in the fight against money laundering and to implement the recommendations of the FATF.

79. Effective procedures should be adopted to ensure that precursor and essential chemicals are not diverted to manufacture illicit drugs. A task force similar to the FATF should be created for this purpose, composed of Summit participants and other countries that trade in these chemicals, with the involvement of representatives of the chemical industry. The task force should address the problems which concern cocaine, heroin and synthetic drugs and report within a year.

80. We support a strategy for attacking the cocaine trade as outlined in particular in the Cartagena Declaration. We recognize the importance of supporting all countries strongly engaged in the fight against drug trafficking, especially Colombia, Peru, and Bolivia, with economic, law enforcement, and other assistance and advice, recognizing the need to make contributions within the framework of actions against drug trafficking carried out by the producer countries.

81. The heroin problem is still the most serious threat in many countries, both developed and developing. All countries should take vigorous measures to combat the scourge of heroin.

82. We should support an informal narcotics consultative arrangement with developed countries active in international narcotics control. Such a group could strengthen efforts to reduce supply and demand, and improve international cooperation.

83. We welcome the current review of UN drug abuse control agencies and urge that it result in a more efficient structure.

NEXT ECONOMIC SUMMIT

84. We have accepted the invitation of Prime Minister Thatcher to meet next July in London.

Representative HAMILTON. All right. Thank you very much for that report.

We'll begin with questions.

I guess one of the things that struck me, as I looked at the results of the communique, is the fact that there really was a lot of disagreement and decisions to kind of go your own way, which did not seem to me to be characteristic of previous summits.

On the question of aid to the Soviet Union, Germany said, we're going to go ahead. The United States said technical assistance, but we're not going to provide any financial resources of consequence, and kind of patted Mr. Kohl on the back and said, go to it. And he did.

With regard to China, same thing really with respect to Japan. We're not going to lift the sanctions but Japan is going to go ahead and extend, I think you said, a yen loan to China. And, of course, these are very, very significant differences.

With regard to agriculture, although there's an agreement on the language in the communique, it still seems to me that we're very, very far apart with respect to agricultural subsidies. And I note in the morning paper that the Geneva talks seemed to stall and, I guess, recess without further agreement, to come back in August.

And, if you look at the environment as well, the Europeans, or at least some of the Europeans pushed for specific action which we rejected. So, if you look at all these things, one gets the impression that it's a very different world out there and that the Germans and the Japanese are quite assertive in doing what they want to do, regardless of whether the United States comes along with them or not. And that the multipolarity, I guess, strikes you more than the unity of the group.

Do you care to comment on that observation?

Mr. MCCORMACK. Yes, I would.

I mean it's clear, when you're dealing with a country like the Soviet Union that was at one time engaged in large-scale invasions of Afghanistan and was engaged around the world in a variety of subversive and terrorist activities through surrogates, that you have one sense of cohesions there, because you're dealing with a problem that everybody can see is a problem and that there's a sense that you have to contain this thing and keep the pressure on it.

It's quite another thing when one can see a steady relaxation and improvement, where you can see cooperation in trying to deal with tensions of the Third World rather than exacerbating those tensions, which is in fact what's quietly happening in a number of theaters. And I can tell you the President had no objection whatsoever in Mr. Kohl making his aid to the Soviet Union. Because Mr. Kohl was specifically interested in maintaining a bilateral objective, which is to have Russian acquiescence to the unification process. If it cost a few billion dollars, Mr. Bush has no objection to that.

Representative HAMILTON. Aren't we interested in that as well?

Mr. MCCORMACK. The President did not feel that it was appropriate for the United States to start writing big checks and he, in fact, discouraged any thought that we would do this.

Representative HAMILTON. Yes, but what strikes me there, Mr. McCormack, and I'm not really sure this is good or bad; I'm not arguing that. It's just the difference.

The big policy question in East-West relations today is, do you aid the Soviet Union? And the fact is we come down on different sides.

The Soviets obviously need a lot of help but the Germans and French, too, apparently, are prepared to pump a lot of money into that proposition. We are not. And you have a very interesting phrase in this communique.

In paragraph 43 it says: "* * * Some countries are already in a position to extend large scale financial credits."

Now, that's an extremely interesting sentence to me. Because what it suggests is that Germany, financially, is in a position to extend credits, and the implication is that other countries are not—the United States, I presume——

Mr. MCCORMACK. And Britain.

Representative HAMILTON [continuing]. Britain and other countries.

Mr. MCCORMACK. And Japan.

Representative HAMILTON. But that was an interesting phrase to me.

But at the end here what emerges to me is really the difference, not the unity.

Mr. MCCORMACK. And, again, the point you make is perfectly valid but, as I say, the different situation we're dealing with was, 10 years ago we had an absolutely black-white situation. Today, we have some shades of gray. And you have different national imperatives which warrant a somewhat different approach depending on the bilateral countries—the bilateral process that's involved here.

The Germans were very anxious to accelerate this reunification process. They knew the Soviets were in a position to impede this in a variety of ways, should they so desire. And Mr. Kohl wanted to move on this process right smartly for a variety of external and internal purposes. And he knew that it was worth his while to write a little check—to write a check to the Soviets to sort of make this process happen.

But I will say this. There is no one who believes that the amount of money that the Germans are talking about is going to make a substantial difference in the economy of the Soviet Union.

Representative HAMILTON. Including Mr. Kohl?

Mr. MCCORMACK. I don't think anybody believes that is going to make a long-term difference in the Soviet economy.

Senator SARBANES. What about Mr. Gorbachev?

Mr. MCCORMACK. I think Mr. Gorbachev is going to have some short-term benefits from this and I think he has perceived that to be important to him.

Senator SARBANES. At least important enough that he made the deal.

Mr. MCCORMACK. Yes. But it may be that he concluded he couldn't stop the deal, in any case, and that this was a side benefit that was potentially there.

I'm purely speculating. I've obviously not talked to Mr. Gorbachev.

But the critical thing is that economy is simply going to pieces over there. And the amount of aid that is being talked about is relatively small when you consider you're talking about, I assume, a trillion-dollar GNP situation.

Representative HAMILTON. But with respect to China, the difference also impresses me there. And there my question would be: Doesn't the Japanese posture of extending the yen loan, whatever their arrangement is with China, effectively weaken or nullify the sanctions? It doesn't help the sanctions.

Mr. MCCORMACK. It doesn't help the sanctions and in fact—does in fact weaken them. There is no question about that in terms of the overall impact. There was a sense perhaps on the part of the Japanese, more than others, that the Chinese were slowly moving in the right direction and they wanted to encourage that.

I think there was a sense by the Japanese that they wanted to be seen to be helpful to the Chinese at this particular stage for a variety of reasons.

Representative HAMILTON. Let me ask you there, if I may, do you think that the Japanese analyze the situation in China somewhat differently than we do? That is to say, they think more progress has been made on the concerns that caused the sanctions to be implemented than we think and than the Germans think and others; is that correct?

Mr. MCCORMACK. I think that. And I think they also had a commercial motive in this thing.

Representative HAMILTON. Right. They're clearly driven by commercial interests as well, aren't they?

Mr. MCCORMACK. Commercial and long-term strategic interests. They have had, as you well know, a long and bitter—there are bitter memories between the Japanese and the Chinese stemming back to the Second World War, and I think they wanted to be seen by the Chinese to be helpful at this particular point. That's my sense.

Representative HAMILTON. I'll come back with some more questions here.

Senator Sarbanes.

Senator SARBANES. Well, Mr. McCormack, I could not help but think, as I was sitting here listening to you, what could be the male equivalent of a Pollyanna. You put this wonderfully positive gloss on the whole thing.

Let me quote from the London Financial Times an editorial on Friday after the summit:

> The Houston Economic Summit has been remarkable for its failure to mask disagreements among the participants.

Chairman Hamilton has just touched on a number of those prominent disagreements. Do you disagree with that evaluation?

Mr. MCCORMACK. I do. And in fact there was an article in the same newspaper 2 days later which took strong issue with that editorial, which I'd be happy to send to you.

Senator SARBANES. You mean an op-ed article?

Mr. MCCORMACK. Yes.

Senator SARBANES. By you?

Mr. MCCORMACK. No, it was not. [Laughter.] It was by another individual—a very perceptive man.

But, as I say, no economic summit solves all economic issues.

Senator SARBANES. I don't expect it to solve it. Why don't you just say, look, we had some disagreements. There are different perceptions here and the G–7 weren't able to present a united front. The Germans are giving big credits to the Soviet Union. The Japanese are giving big credits to China. The farm issue is very important and you spent a lot of time talking about it. But then, here's a story in today's paper:

> Stalled Geneva farm talks are suspended for a month. American official says that blockages exist not just in agriculture but in all the major negotiating sectors.
>
> "It's clear the chemistry isn't there," said one senior American official asked not to be identified.

Mr. MCCORMACK. I can perhaps say a word or two about that article.

Senator SARBANES. In the course of doing that, why don't you address the broader question, too?

Mr. MCCORMACK. The broader question being what?

Senator SARBANES. What is the motivation to try to put on a front that there has been tremendous agreement when it's very clear there has been a lot of disagreement?

Mr. MCCORMACK. Let's take it issue by issue.

If Mr. Bush had had a strong objection to Mr. Kohl providing this money to the Soviet Union, he would have said that, but he didn't. There was a sense that, if the Germans wanted to go ahead and make their contribution, nobody had strong objections to that, including the President of the United States.

Senator SARBANES. Well, that doesn't answer the question. There is a basic difference on what the policy toward the Soviet Union ought to be.

You don't smooth that over simply by telling me, well, if they want to adopt a different policy, that's all right with us. We didn't, sort of, break their arms to keep them from adopting a different policy.

Mr. MCCORMACK. We basically said——

Senator SARBANES. The same thing with China. Only in this instance the actor is Japan.

Mr. MCCORMACK. In the case of the Soviet Union, we said we are prepared to offer technical advice, economic advice and assistance; the Germans are prepared to offer economic assistance. Now that is the difference between the national positions on this thing.

Senator SARBANES. OK. In the case of China, it's Japan who's going to offer the economic assistance; is that right?

Mr. MCCORMACK. That's correct.

Senator SARBANES. Now is all of this a reflection of U.S. financial weakness?

Mr. MCCORMACK. No.

Senator SARBANES. We're in no position to offer the assistance. We have to take this view because we don't have the resources with which to take a different position.

Mr. MCCORMACK. No. The President of the United States didn't feel it was appropriate for the United States to do it, to provide economic assistance.

Senator SARBANES. Do we have the resources to do it? Are we affected in the positions we took at the summit by our own economic situation?

Mr. MCCORMACK. I think that if we had a budget surplus right now, we would have not made a change in our positions on those issues. That is my belief.

Senator SARBANES [presenting document]. Can you see that chart from where you're sitting, those lines?

Mr. MCCORMACK. I can see those lines.

Senator SARBANES. Good. This is current account balances—United States, Japan, and Germany. You see back in 1980 we were all roughly about the same. In fact, the United States was in a surplus and both Japan and Germany were in a deficit.

Now you see this incredible deterioration in the U.S. current account balance in the 1980's and a corresponding significant increase in a positive current account balance by Japan and Germany. Does that have something to do with it?

Mr. MCCORMACK. The policy decisions that I mentioned to you before, in my judgment, would not have been changed even if we were in surplus. I do not think the President of the United States would have been comfortable writing a big check to Mr. Gorbachev at this particular time even if we had money coming out our ears.

That doesn't mean to say that I'm happy about that particular chart. And we both understand the reasons why it happened and why we need to change it.

Senator SARBANES. So you don't feel that the U.S. bargaining position was impeded by our own economic weakness?

Mr. MCCORMACK. I believe that, across the board, when we have the kind of problems that we have now, it inevitably does. But in the case of the specific decisions that you were talking about before, as I say, Senator, I don't believe Mr. Bush would have made a difference in his policy judgment, even if we were in surplus—budgetary and trade surplus—at this particular time.

In the case of the Germans, the Germans do have a very significant surplus. And the Germans were quite comfortable in writing two very large checks this year. One which was toward the internal reunification process and one which they're now doing toward Mr. Gorbachev.

You should also know that most of the money that the Germans are targeting for Mr. Gorbachev will in fact repay German institutions that have hitherto loaned the Soviets money and that the Soviets are not today repaying.

Senator SARBANES. When did the Germans lay out their plans for giving the package to the Soviet Union?

Mr. MCCORMACK. As I recall it was about 3 weeks before the summit.

Senator SARBANES. Before the summit?

Mr. MCCORMACK. Yes.

Senator SARBANES. When did Japan announce its intention to renew billions in credits to China?

Mr. MCCORMACK. About a week before the summit.

Senator SARBANES. Before the summit?

Mr. MCCORMACK. Yes.

Senator SARBANES. Then we went to the summit and were, in effect, presented with fait accompli, weren't we?

Mr. MCCORMACK. We had been consulted on both of those decisions before they were made.

Senator SARBANES. What was the nature of that consultation?

Mr. MCCORMACK. They simply told us that they were thinking of moving in this direction.

Senator SARBANES. And then they went ahead and did it?

Mr. MCCORMACK. They went ahead and did it.

Senator SARBANES. Then what was there to decide at the summit on these issues?

Mr. MCCORMACK. The question at the summit was that——

Senator SARBANES. There was nothing to decide, was there?

Mr. MCCORMACK. No. What the Germans wanted to achieve at the summit was to persuade the rest of us to write a similarly large check to the Soviet Union under current circumstances. That was what Mr. Kohl attempted to do; that's what Mr. Mitterrand talked about briefly. And that is what we were simply not prepared to do, nor were the Japanese, nor were the British.

Senator SARBANES. Do you think the summit established the proposition that members of the G–7, particularly the West Germans and the Japanese which are running these large current account surpluses, can strike out independently on major international issues? Does the summit represent, in effect, a breakdown of coordinated policymaking and placing an imprimatur of approval on individual nation policymaking?

Mr. MCCORMACK. Well, you know, one has to bear in mind that individual nations have sovereignty and can in fact make decisions.

Senator SARBANES. Well, I understand that.

Mr. MCCORMACK. One can extrapolate to this on a very modest level, or you can say this is going to be the pattern for the future, no matter what it might be.

Senator SARBANES. Well, what did the summit achieve that wouldn't have been done without the summit? I assume without the summit Germany would have extended its credits; Japan would have extended its credit. The impetus to the farm talks seems to be undercut by this article, which you said you were going to address, as I recall.

Mr. MCCORMACK. Yes.

Senator SARBANES. I don't think you've had a chance to do that.

The environmental issue did not represent a coordinated front. There is obviously very significant differences among the countries on how we move. The United States is, in fact, more and more appearing to be the recalcitrant party on environmental questions.

Mr. MCCORMACK. Let's sort of take them one by one here.

As far as the Uruguay Round is concerned, 1 month before the summit, I was dealing this thing as a dead duck.

Senator SARBANES. Which thing?

Mr. MCCORMACK. The Uruguay Round. I mean I could see this thing just in total failure, in total shambles. And what we succeeded in doing at the summit was impressing upon the other heads the very strong determination by the President that, unless they were prepared to move in a much more dramatic fashion on agriculture, this thing was in fact going to go down the drain.

And he impressed this on them in the strongest possible language in the privacy of that meeting. He basically said that the current situation is just drifting toward disaster and we have to look at this situation and try to move this in the right direction.

It's clear, when you're dealing with a Common Market which gets together and makes decisions with 12 countries on agriculture—and there were not 12 countries present at the summit—that not all decisions could be taken by the G–7. But the President put it on a very strong marker to his colleagues around the table, that he saw this thing going down. And that, unless they were in a position to make some very substantial changes in policy that he couldn't necessarily be responsible for the consequences of this. And the others took that message very soberly.

Senator SARBANES. Let me just quote another sentence:

> But this week, when it came to making necessary concessions, neither side budged. As a senior American trade official put it: "There was no sign that the basic differences had been bridged."

Mr. MCCORMACK. What we hoped to achieve by the TNC was a framework for negotiations, which negotiations will take place in the course of August. We will have a better idea at this meeting in August whether in fact we have gone very far or not. We have had some informal assurances by some of the key people that are involved in this process that they are in fact going to seek broader flexibility for negotiations.

Whether they're able to do that, we will know in the latter part of August; we do not know that now. But we have been given some informal assurances by some of the key people that are involved that, in fact, they will be given broader flexibility for the negotiations that take place in August. And, as I say, who knows?

Senator SARBANES. Now the State Department's briefing paper on the Uruguay Round says: "They"—meaning the leaders—"* * * asserted that a framework for negotiating the agricultural problems should be agreed upon by the time of the critical July meeting of the Trade Negotiating Committee."

Mr. MCCORMACK. And that has now happened. They have agreed to use the de Zeeuw report as the framework for these negotiations. And that was where the strong disagreement was before. There was no framework for negotiations.

Senator SARBANES. You don't think there has been any failure to make progress?

Mr. MCCORMACK. I think things are moving along slowly, but that they're moving slowly in the right direction. Whether they're going to move far enough, fast enough, I won't know until I know what negotiations——

Senator SARBANES. Is it part of the game plan that negotiations should be suspended for a month?

Mr. MCCORMACK. The plan was that after July, the people would reconnoiter and try to get new instructions. And that is what's going to happen.

Senator SARBANES. It was part of the game plan——

Mr. MCCORMACK. All of Europe closes down in August, as you know.

Senator SARBANES [continuing]. To suspend negotiations?

Mr. MCCORMACK. There isn't anybody—they all go on vacation.

Senator SARBANES. I want a very specific answer to a very specific question. Was it part of the game plan that negotiations should be suspended for a month?

Mr. MCCORMACK. My impression is that the answer is yes.

Senator SARBANES. Well, why don't I ask the U.S. Trade Representative person. Was that part of the game plan, Ms. Early?

Ms. EARLY. The negotiations are not suspended; I think that's inaccurate. We normally meet once every 3 or 4 weeks in the agriculture negotiating groups. So having a lapse of 3 weeks is not unusual at all. And they're certainly not suspended.

Senator SARBANES. So a suspension is not part of the game plan?

Ms. EARLY. That is an incorrect word to use.

Mr. MCCORMACK. Yes. Bear in mind, Senator, that these negotiators can do absolutely nothing without political instructions—nothing. So what they have to do after these discussions is go back to the ministerial level and get new instructions.

Senator SARBANES. Let me ask one question on the environment, then I'll relinquish my time. The chairman has been very generous.

I take it, it was agreed at the summit that global warming was a sufficient risk and problem to warrant prodding the tropical countries to do something about preserving their rain forests; is that correct?

Mr. MCCORMACK. But not only the tropical countries but other countries that are having problems with forests.

Senator SARBANES. A good part of the focus was on pushing the tropical countries to preserve their rain forests; is that correct?

Mr. MCCORMACK. Part of the focus—that was an important part of the focus.

Senator SARBANES. Apparently, the United States did not agree or would not agree that it was enough of a problem to warrant a commitment by the United States to reduce emissions of greenhouse gases at home, despite prodding, particularly from Germany, to do so; is that correct?

Mr. MCCORMACK. We did not agree that we would engage in a protocol to reduce greenhouse gases at this time, until we have some additional information from this billion-dollar annual research exercise that we have mandated.

Senator SARBANES. Aren't you troubled by what would appear, at least to many, to be a hypocrisy in the U.S. position? We're pushing the tropical countries and others hard on the preservation of the rain forests because of, in part, our concern about global warming.

Yet, when it comes to steps that we should take here at home to address the global warming, they're told, well, we need a big research study.

Mr. MCCORMACK. I am not troubled by our general posture. We are, as you know——

Senator SARBANES. Are you troubled that others are troubled by it, including elsewhere in the world? Perhaps you're comfortable with it—you can square it in your own mind—but does it bother you that there are significant thinking centers around the world that seem to see a contradiction or a hypocrisy in this position?

Mr. McCORMACK. I, myself, am quite comfortable with this administration's position on this issue.

I know that we are taking steps right now that are going to result, by the year 2000, in no increases over greenhouse gas emission over what we had last year. I feel good about that. And that is a degree of insurance that is happening here.

I also know that, after a year or two or three of research that is going to be generated in enormous quantities, we're going to have a larger fact base from which to make major decisions about energy and the size of automobiles and other sorts of things that we have now.

And I would not be comfortable, personally, recommending that we spend a trillion dollars, up to a trillion dollars, to deal with a policy issue that I see big question marks on at this stage. I wouldn't be comfortable doing it.

Because the billion dollars that you're spending here, you're not spending on educating children; you're not spending on doing a number of other things. So I'm not uncomfortable with this.

Other countries have different energy mixes. Take, for example, the Germans. The Germans are right now burning an enormous amount, particularly East Germany, of brown coal and other things which are in fact killing their forests. This is happening in a number of other places.

Because of the local consequences of their dirty generators, their trees are dying and they have to do something about this in any case.

Senator SARBANES. Are you talking about West Germany or East Germany?

Mr. McCORMACK. I'm talking about West Germany and East Germany, but particularly East Germany.

Senator SARBANES. I mean are your comments applicable to West Germany as well?

Mr. McCORMACK. To a lesser degree.

So what is going to happen in Germany, as a whole, is they're going to have to change the way they generate a lot of their electricity. They have to do it if they want to keep the Black Forest alive, which they do. And what they get out of that process is a greenhouse gas dividend.

But what they're doing are things that you and I would do if we started watching the trees along the Potomac die as a consequence of local pollution problems.

In the case of the British, the British also burn a certain amount of dirty coal. They're phasing that out and they're going to be using more natural gas from the North Sea. That is going to have a greenhouse gas dividend effect. It's going to reduce it but it's also going to result in less local pollution.

So what's happening is these other countries are able to take certain steps, which they need to do for local concerns, local considerations. And there is a greenhouse gas dividend to this process.

Senator SARBANES. So they try to elevate it into an overall greenhouse policy, right?

Mr. McCORMACK. They're taking note of the fact that what they're doing has this additional benefit and they're——

Senator SARBANES. It's almost like a scam on us on the greenhouse issue, isn't it?

Mr. MCCORMACK. I don't think it's a scam. I just think that the independent actions taken by those countries have both a local and a broader potential impact.

Representative HAMILTON. Mr. McCormack, let's come at agriculture from a completely different angle.

Let's suppose we are totally successful. Our position has been the elimination of trade-destroying subsidies. That's not the position in the communique but the communique obviously moves in that direction.

But let's, for a moment, assume that in the GATT Round, by the end of the year, our position on agriculture is adopted. That may be a little fanciful but let's assume it.

Now, what impresses a Member today is that, while we're talking about this, you and I, in the GATT, we're voting on an agriculture bill on the floor. And that agriculture bill has subsidies, protection all over the place. And the Senate is working on a bill this week that is quite similar. And, in the end, we'll have an agriculture bill, most people think, which will be roughly an extension of the 1985 bill, which has, as you know, a lot of protectionism in it and a lot of subsidy of all kinds.

Now, you go to GATT and you get an agreement adopting the United States' position. And the United States' position is the elimination of all of these things. And you have an agriculture bill signed by the President, presumably, in 1990 that flies in the face of the GATT provisions at many, many points.

And, if I understand the situation correctly then, you would submit the GATT agreement to us early next year. The Congress votes up or down within a certain amount of time, doesn't it, approval—up or down vote on the entire package?

Mr. MCCORMACK. Yes, sir.

Representative HAMILTON. Now, where does that leave us and what happens to this bill that's enacted?

Mr. MCCORMACK. The administration, I believe, has stated that they will seek to make the bill and the agriculture policy consistent with what we negotiate in the GATT. And what I believe they're basically saying is that the current bill is one that one would do in the event the Uruguay Round was a failure and if we got nowhere in it, and it provides a number of things.

Representative HAMILTON. And that bill is on a faster track obviously than the GATT agreement?

Mr. MCCORMACK. Yes, it is. And when the GATT agreement is reached, then we will seek to make that bill consistent with what we have negotiated in the GATT. And, according to Mr. Yeutter, what he hopes to do by this, by having this bill, is put a certain amount of pressure on our European friends to negotiate seriously.

Representative HAMILTON. Well, again, following this scenario down the track, just to kind of get the plan in mind, the administration then would come into the Congress early next year and recommend such changes in the Omnibus Agricultural Act as are necessary to harmonize it with the GATT provision; is that the game plan?

Mr. MCCORMACK. That's what they tell me they intend to do, yes.

Representative HAMILTON. And the Congress then would have to approve those changes in the Omnibus Agricultural Act at the same time or on the same track as we would vote approval of GATT, right?

Mr. MCCORMACK. Yes.

Representative HAMILTON. But the Congress——

Mr. MCCORMACK. Or subsequent thereto.

Senator SARBANES. Would approval of GATT override the legislation?

Mr. MCCORMACK. No, I don't believe it does.

Representative HAMILTON. Now, of course for the Congress to do that would be a 180-degree turnaround from anything I've ever seen us do on an agricultural legislation in the past 25 years.

Mr. MCCORMACK. Well, the feeling and the hope is that, if this GATT Round in fact results in substantial, progressive reduction in export subsidies and if this GATT Round results in important improvements in access by U.S. farmers to markets abroad, the hope would be that the Congress would be prepared to see a reduction in the protectionism and a reduction in subsidies that exist here. Because the farm economy would gain in additional market share abroad what it would lose in prices, in subsidies. That's the expectation and hope.

In the event that this thing results in an anemic process with marginal improvements in export subsidies and marginal improvements in market access opportunities, I assume Congress would look quite skeptically at fundamental changes. That would be my guess.

Senator SARBANES. Mr. Chairman, could I just——

Representative HAMILTON. Sure.

Senator SARBANES. I thought that you presented the GATT agreement and the changes in American law necessary to implement it as a package and that the Congress either voted it up or voted it down. Once that was done, at the same time, since it was encompassed in the package, all the changes in the law were made so that we could pass a farm bill now——

Representative HAMILTON. It would be repealed.

Senator SARBANES. If the President signed it and you submit the GATT agreement, and if we approve the GATT agreement, that it changes the farm bill in every respect necessary to conform policy or conform the law to the GATT agreement; is that not correct?

Mr. MCCORMACK. I don't know the technical sequence of——

Senator SARBANES. This is very important.

Mr. MCCORMACK. I do know that I've been informed by Yeutter and others that they will make—they will seek to make the current farm—the farm bill that is passed consistent with what we negotiate in the GATT.

How they do it, whether it's simultaneously, whether it's a bill, whether it's as you describe—and I would certainly defer to you and your staff people on how one does this, I don't know. I just know that I have heard repeatedly from the Cabinet meetings that they would make this consistent with what we negotiate in the GATT legislatively.

Representative HAMILTON. Well, I thank you for your comments. I'm very interested in this process. Because just the stark differ-

ence that strikes me as I look at this agriculture bill, and then as I talk with you and others about our position at GATT, the gap is just monumental——

Mr. McCORMACK. There's no question about that.

Representative HAMILTON [continuing]. And so contrary to anything I've seen the Congress ever do on these matters.

When you say, in your communique, that you commend the text submitted by the Dutchman whose name I can't pronounce—what's his name?

Mr. McCORMACK. Art de Zeeuw.

Representative HAMILTON. De Zeeuw?

Mr. McCORMACK. Yes.

Representative HAMILTON. What do you mean "commend"? Does that mean you agree with that text or is that—you know, a lot of politicians will say, I commend you, and that's a nice way of saying I don't agree with you. But what does it mean here?

Mr. McCORMACK. Well, the meaning here was that we would recommend it to this process.

Representative HAMILTON. You recommend it here?

Mr. McCORMACK. Yes.

Representative HAMILTON. Now, what is his position? What's he saying?

Mr. McCORMACK. Well, he basically has set out a rather detailed framework for this negotiation, which includes some things that we think go too far and some things that the Common Market thinks go too far but in fact provide the basis for the two sides to provide detailed lists of what they're doing and start the negotiation process.

In terms of the actual technicalities and details of the report, I will refer to the lady here who spends full time on this thing.

Representative HAMILTON. She's happy to get that transfer, I see.

Well, I won't try to push you on that except to say that report is totally consistent, I presume, with the earlier language saying substantial, progressive reductions in support and protection of agriculture, correct?

Mr. McCORMACK. That's correct.

Representative HAMILTON. And that it goes after the three areas—internal regimes, market access, and export subsidies—all three of those, right?

[Mr. McCormack nodding head.]

Representative HAMILTON. So he's the one really that has kind of given you the intellectual base for the language in the communique; is that correct?

Mr. McCORMACK. He picked up the language that has been discussed from the very beginning in this negotiation process.

Representative HAMILTON. Now, I wanted to ask you about technical assistance. When the President says that we want to provide technical assistance to the U.S.S.R., what does that mean? How much——

Mr. McCORMACK. It means——

Representative HAMILTON [continuing]. Are we talking about? What kind? What cost? When?

Mr. McCORMACK. What we're talking about are doing such things as sending the Chairman of the Council of Economic Advis-

ers over to consult with them on how to reform their economy, how to set up institutions.

Representative HAMILTON. Now we've done some of that of course, haven't we? He's already been over there; the Federal Reserve Chairman's been over there; and I presume others as well.

There's no estimate of cost there. I presume that could be handled within present programs. We're not talking about new legislation when we're talking about technical assistance. And we are saying that we're prepared to do that right now, correct, not in the future?

Mr. MCCORMACK. Yes. And it's an ongoing process which will continue.

Representative HAMILTON. Do you agree with those who say that the summit meeting indicates that the preeminence of the United States is slipping?

Mr. MCCORMACK. I think you have to look at it in a different way. I think it is fact that we no longer have just the sheer naked element of fear that helped impose a sense of discipline on the non-Communist world. That's changed. So that the threat is no longer there to the same degree that it was before.

The second thing that you have to take note of is the fact that, as part of conscious U.S. policy, going back 45 years, we set out to help other countries become prosperous. And, to the degree that we were successful in this exercise, we have a smaller share of global GNP. So, in that sense, as others become more prosperous, we become less important as a part of the overall GNP and that is happening.

Representative HAMILTON. So it's fair to say that our preeminence is not what it once was?

Mr. MCCORMACK. That's quite so. And it would be a disaster if it were not that way.

Representative HAMILTON. I mean it's really extraordinary to see the Japanese, for example, to go out on their own with respect to China. If there has been any cardinal principle in Japanese foreign policy in the postwar period, it's we're going to work with the United States. And here they're deciding to depart from the United States on a very important matter.

Mr. MCCORMACK. But bear in mind they——

Representative HAMILTON. They have good reasons for it; I understand that.

Mr. MCCORMACK. But bear in mind they consulted in advance on this thing and they got our concurrence in it.

Representative HAMILTON. Senator Sarbanes.

Senator SARBANES. Did they get our encouragement?

Mr. MCCORMACK. They got our concurrence in it.

Senator SARBANES. How about our encouragement?

Mr. MCCORMACK. They asked for our concurrence and we gave it to them. We didn't encourage or discourage. We just simply——

Senator SARBANES. Enthusiastically?

Mr. MCCORMACK. They sent a note that they were thinking of doing this and asked for our thoughts on it. And we said, if that's what you want to do, fine.

Senator SARBANES. What about the agreement that was struck by Kohl and Gorbachev? That was very specific, as I recall—a

370,000 troop ceiling of Bundeswehr troops in Germany. Did we know in advance that Kohl was going to make that offer to Gorbachev?

Mr. McCORMACK. I do not know but that would be something that Mr. Kimmitt deals with and I really don't, Senator. So I just simply don't know.

Senator SARBANES. In any event, you were at the Houston Summit?

Mr. McCORMACK. Yes, I was.

Senator SARBANES. That, to your knowledge, didn't come up when the Germans said we want to provide aid——

Mr. McCORMACK. No.

Senator SARBANES [continuing]. And talked about Soviet aid? They didn't talk about German troop levels?

Mr. McCORMACK. They didn't talk about it in my presence. But it's conceivable that Mr. Kohl had a private discussion with the President at a luncheon. I just simply don't know the facts.

Senator SARBANES. How about the amount of assistance going from Germany to the Soviet Union? Was there any discussion at the summit specifically about how much assistance Germany was going to extend?

Mr. McCORMACK. Yes. The Germans told us in advance what they were planning to do and simply followed through with it.

Senator SARBANES. There were no surprises with regard to those economic figures that Kohl extended?

Mr. McCORMACK. No.

Senator SARBANES. What was it—$5 billion in deutsche marks—$3 billion in U.S. currency?

There was no surprise to us when Mr. Kohl agreed to help the Soviet Union with regard to Soviet troops stationed in what is today East Germany?

Mr. McCORMACK. Again, that is——

Senator SARBANES. You don't know about that.

Mr. McCORMACK. That is Mr. Kimmitt's business and I really don't follow that closely.

Senator SARBANES. That didn't come up during the summit. OK.

Just before the President went to Houston, he announced a plan for free trade talks with the Western Hemisphere. If you look at the way things are developing here, Germany is pursuing aggressively trade with Eastern Europe and, certainly, of course with what is today East Germany. Japan, we've been talking about, is pushing ahead with respect to China. The President talks about free trade talks with the Western Hemisphere.

Is it fair to say or is it correct to say then that we are moving in kind of a regional approach to these problems?

Mr. McCORMACK. It is fair to say that—as we did with the United States-Canadian free trade agreement, that we are attempting to expand the area of free trade. But, as in the case of the United States-Canadian free trade agreement, it was quite consistent with our overall multilateral trade policy, fully consistent with the GATT and was announced that it would be in advance of the negotiations.

Senator SARBANES. These regional trade moves that we're making are fully consistent with the GATT, fully consistent with multilateral trade?

Mr. MCCORMACK. Yes, that's right.

Senator SARBANES. Spell that out for me a little bit. I'm not sure that I understand it. We strike a deal with Canada; we want to strike a deal with Mexico for free trade. We do that without any, so far as I know, approval or consultation with GATT or the other countries, other industrial countries. Why would that be consistent with the multilateral trading system?

Mr. MCCORMACK. Well, we are in fact consulting with GATT on this thing.

Senator SARBANES. Does GATT approve that kind of an effort?

Mr. MCCORMACK. They did in fact approve it.

Senator SARBANES. They don't see that as undermining the multilateral trading system?

Mr. MCCORMACK. No, it is not.

Senator SARBANES. Well, why wouldn't it be undermining the multilateral trading system? You're striking special deals.

Mr. MCCORMACK. Well, you're creating opportunities for people to have lower tariffs and to have freer trade going back and forth.

Senator SARBANES. Yes, but you're not doing that across the board; you're only doing it with certain favored countries.

Mr. MCCORMACK. Why don't you respond to that, Ms. Early?

Ms. EARLY. We'll have to seek a waiver. If we eliminate, for instance, tariffs between ourselves and Latin America, we'll have to seek a waiver under GATT because that would change the most-favored-nation status. But we would still be maintaining the same level of protection vis-a-vis Third World countries. So it would not be a violation in that sense.

But we sought a waiver in the free trade area agreement with Canada and received it. And we also sought one in the case of the Caribbean basin.

Senator SARBANES. When you say you receive a waiver, then you are making exception, right?

Ms. EARLY. That is correct.

Senator SARBANES. You seek a waiver by going to the GATT and saying we would like to get a waiver, and they meet on it; is that the way is operates?

[Ms. Early nodding head.]

Senator SARBANES. They say OK, go ahead. It's pretty tough for them not say go ahead, isn't it?

Ms. EARLY. They could conceivably say it's not OK.

Senator SARBANES. Do they ever?

Ms. EARLY. I have no examples to give you where they've said no.

Representative HAMILTON. Who else has sought a waiver?

Ms. EARLY. There is a waiver for GSP programs that many countries have received. The European Community has such a waiver; so do the Japanese; so do we.

Representative HAMILTON. On GSP. What about the European Community for Europe 92?

Ms. EARLY. I don't believe a waiver would be required because they're not talking about changing—it's not a free trade area

agreement. It's removing technical restrictions to trade within the European Community.

Representative HAMILTON. And is the same thing true of the various agreements that the Japanese are reaching in their region?

Ms. EARLY. I'm unfamiliar with those to know whether or not they would require a waiver.

Representative HAMILTON. So there's only the United States that is—well is it the case that it's only the United States that has been seeking waivers?

Ms. EARLY. With respect to free trade area agreements, it's the only ones that I'm familiar with.

Representative HAMILTON. I want to make sure we have your name and title down on the record.

Ms. EARLY. My name is Suzanne Early. I'm the Assistant Trade Representative for Agriculture.

Representative HAMILTON. Thank you.

Senator Sarbanes.

Senator SARBANES. Mr. McCormack, I would like to direct your attention to the communique, to the debt section, particularly paragraphs 59 and 60.

> We encourage the Paris Club to continue reviewing additional options to address debt burdens. In the case of the lower middle-income countries implementing strong reform programs, we encourage the Paris Club to lengthen the repayment period, taking account of the special situations of these countries.
>
> We welcome the decisions taken by France with respect to Sub-Saharan Africa and by Canada with respect to the Caribbean to alleviate the debt burden of the lower middle-income countries.

Wasn't that a certain degree of forgiveness?

Mr. MCCORMACK. Yes.

Senator SARBANES. Then we talk about the Toronto and support for the poorest countries and, again, "encourage the Paris Club to review implementation of the existing options that apply." Is there an expansion in the dimensions of the debt policy now to, in effect, begin to consider the forgiveness of official debt of others in the very poorest countries? Is that what all of this means?

Mr. MCCORMACK. No. What they're talking about with the lower middle-income and middle-income countries essentially is simply lengthening the terms of repayment that is done by the Paris Club arrangements.

Senator SARBANES. What does this last sentence in paragraph 59 mean?

Mr. MCCORMACK [examining document]. Alleviate the debt burden of lower middle-income countries. You can alleviate the debt burden of lower middle-income countries by extending the repayment period.

Senator SARBANES. Is that how France and Canada did it?

Mr. MCCORMACK. In the case of France and Canada, there was some debt forgiveness in the case of both of those countries.

Senator SARBANES. Is it being welcomed here?

Mr. MCCORMACK. One welcomes these things.

Senator SARBANES. Have we added a further dimension to the debt program?

Mr. MCCORMACK. We have not. What we have done is agreed to expand the terms of repayment.

Senator SARBANES. Is the United States considering any forgiveness to lower middle-income countries of bilateral debt?

Mr. MCCORMACK. I think it would be useful for you to discuss that with the Treasury people, since they were preoccupied with this and have it as their portfolio.

Senator SARBANES. I'll be happy to discuss it with them, but do you know whether they're considering it?

Mr. MCCORMACK. We can see a number of problems in a number of countries and we're looking at things. But, as I say, we have not reached decisions.

Representative HAMILTON. Mr. McCormack, if I may intervene, is debt relief for Poland under active consideration?

Mr. MCCORMACK. We have discussed it within the U.S. Government. But, again, this is something that is managed by the Treasury and I would really defer to them on this issue.

Representative HAMILTON. The State Department doesn't get into that action, on the question of the debt relief?

Mr. MCCORMACK. We are involved in the Paris Club exercise; we cochair that with the Treasury. But the basic responsibility for the debt management is with the Treasury Department.

Representative HAMILTON. Let me just observe that we've had a lot of meetings with Polish officials and American experts on Poland. And I just think it's very close to being unanimous among—in their view—nongovernment people and government people from Poland that Poland is not going to make it unless there is substantial debt forgiveness. I just pass that on to you for your——

Mr. MCCORMACK. Yes, sir.

Representative HAMILTON. I know you've had that contact but that's my impression on it.

Mr. MCCORMACK. Let me share with you some of the problems we're having on this, as I see it.

There is, in fact, a concern on our part on the Polish situation and we have discussed this with a number of people. But there are other countries who have a larger percentage of the Polish debt than we do, by far, that would have to take a much bigger hit than we would on this one.

Representative HAMILTON. Yes. Is that Germany, principally?

Mr. MCCORMACK. I will be happy to share this with you on a classified note. I will tell you what the facts are in a classified note which I will dictate this afternoon.

Representative HAMILTON. I understand it's not exclusively an American problem.

Mr. MCCORMACK. But there are a number of other countries that are——

Senator SARBANES. Is the information on who holds the Polish debt a classified secret?

Mr. MCCORMACK. No, it's not but——

Senator SARBANES. I thought I could just find a table somewhere that would show me who holds the Polish debt.

Mr. MCCORMACK. But in terms of who has raised issues about this, I would be happy to share that with you, both of you, on——

Senator SARBANES. No, that's not the question. Who does hold the Polish debt?

Mr. MCCORMACK. Germany has an important amount. Canada has a surprising amount of debt. And there are domestic sensitivities in a number of these countries to problems in that area.

When, for example, one country made forgiveness of debt to the Caribbean, there was strong and vociferous public criticism of that at a political level and a reluctance to engage in——

Representative HAMILTON. I know there are those considerations and they have to be taken into account. The other aspect of it is, as the President has said and as all of us have said, is that what's happening in Eastern Europe is just so tremendously important——

Mr. MCCORMACK. No question about it.

Representative HAMILTON [continuing]. And, if I'm correct in reporting to you—and I think I am—what these people say with regard to debt reduction, then it really has to be given very high priority for us as a foreign policy matter of paramount importance.

Mr. MCCORMACK. I take your point.

Representative HAMILTON. Well, I think that has it, Mr. McCormack.

I thank you very much for your appearance this morning. We appreciate it and we've had a good session, good discussion, and we stand adjourned.

Mr. MCCORMACK. Thank you very much.

[Whereupon, at 11:30 a.m., the committee adjourned, subject to the call of the Chair.]

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